HOUSING MARKET OUTLOOK
Edmonton CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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NEW HOME MARKET

Housing starts expected to moderate in 2013

Strong economic conditions, including low mortgage rates, robust job growth, and continued gains in net migration, have contributed to more housing starts in 2012 in the Edmonton Census Metropolitan Area (CMA). At the same time, lower supply in the competing resale market and declining rental vacancies have prompted some households to look to the new home market to meet their housing needs. During the first eight months of the year, total starts in the Edmonton CMA reached 7,821 units, up 33 per cent from 5,890 units in 2011. With construction expected to remain upbeat for the remainder of

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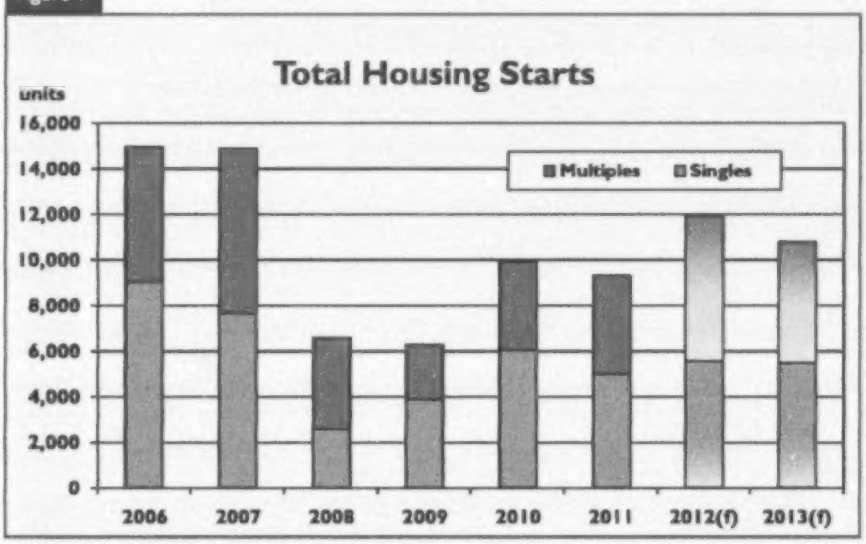
Figure 1



Source: CMHC, CMHC Forecast (f)

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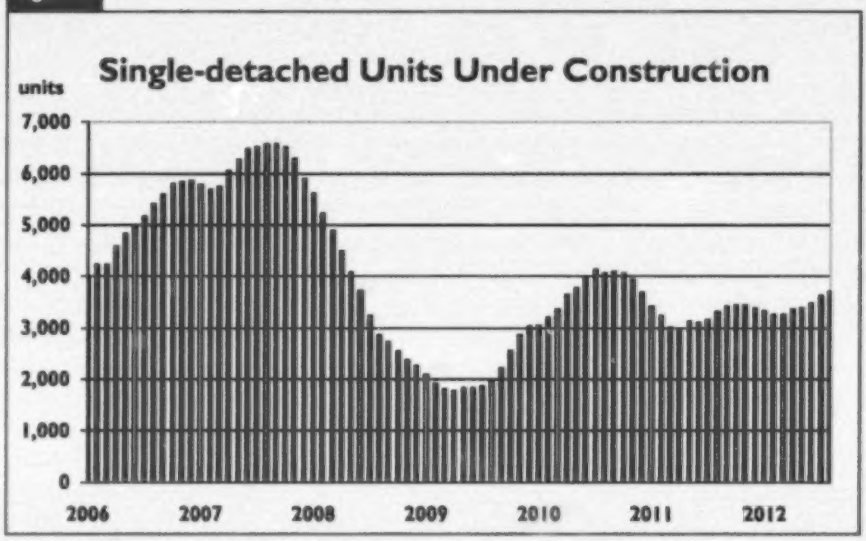
[1]The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of October 17, 2012.

[2]Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

2012, total starts in 2012 are forecast to be 12,000 units, representing an increase of 29 per cent.

In 2013, total starts are expected to remain elevated yet moderate by 10 per cent to 10,800 units. Economic conditions will remain positive and support new home construction, however modestly higher mortgage rates and reductions in the pace of job growth and net migration will slow demand. At the same time, an increase in inventory of multi-family homes will slow the pace of construction for townhouses, semi-detached homes, and ownership apartments. Competition from the resale market will also require builders to adjust their level of production in 2013.

Figure 2



Source: CMHC

Single-detached starts will moderate in 2013, but remain elevated

Single-detached home builders have been busier this year, benefitting from strong employment growth, low mortgage rates and rising average earnings. A strengthening resale market has also contributed some spill-over demand for new single-detached homes. During the first eight months of 2012, construction of this most popular housing type has already increased 16 per cent. With growth expected to moderate for the remainder of the year, single-detached starts are forecast to reach 5,600 units, an increase of 12 per cent from 5,017 units in 2011.

So far this year, higher levels of absorptions have led to a decrease in inventories of complete and unabsorbed single-detached homes. The 523 new single-detached homes in inventory in August 2012 were down seven per cent from the 2011 level of 563 units. This decrease in inventory was mainly due to stronger absorptions in both July and August 2012. With an up-tick in single-detached housing starts, single-detached units under construction increased to 3,702 units in August 2012, up 12 per cent year-over-year. Once most of the units that are currently under construction reach completion, inventories of new single-detached home will rise next year.

Demand for new single-detached home in 2013 will moderate to allow this year's construction activity to absorb. Construction will decrease by two per cent to 5,500 starts, but still be higher than the preceeding five-year average. While higher level of employment will continue to bring more potential buyers, competition from the resale market will also impact the traffic to builders sales offices, contributing to lower single-detached starts.

New home prices to post modest gains in 2013

During the first eight months of 2012, the average absorbed price for a new single-detached home in Edmonton was $516,045, down 3.3 per cent from the same period in 2011. While economic growth and strong net migration continued to drive housing demand, competition from the resale market and more absorbed entry-level homes contributed to the modest pace of price growth. By the end of 2012, the average absorbed price is expected to be $516,000, up 1.4 per cent from 2011.

Statistics Canada's latest New House Price Index (NHPI), which measures the difference in the price of new homes where the specifications remain the same between two consecutive periods, remained flat during the first eight months. By the end of the year, the NHPI is forecast to increase by one per cent.

Factors affecting prices in 2012 will not change much in 2013, contributing to modest price pressures. The average absorbed price for a single-detached home will grow by 1.7 per cent, and the NHPI is expected to increase by 1.5 per cent.

Figure 3

Source: CMHC

Multi-family starts expected to moderate in 2013

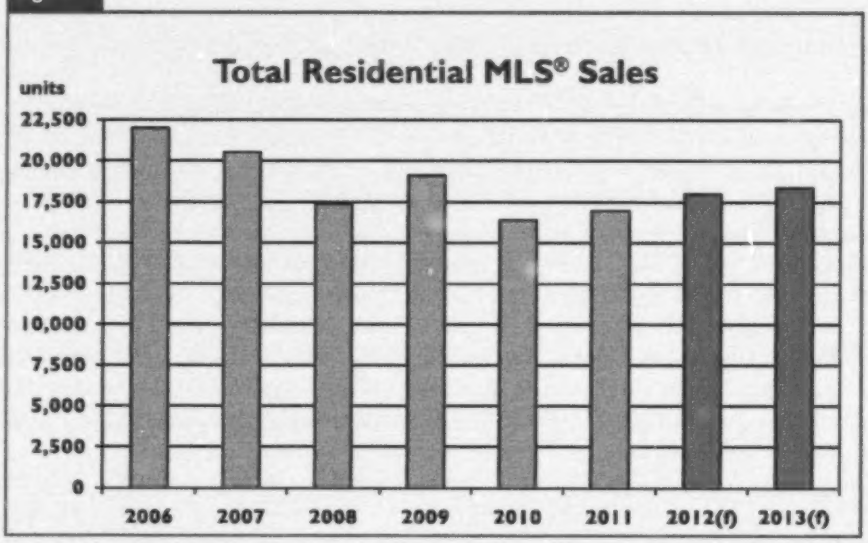
Like Edmonton's single-detached market, new home construction continued to be strong in the multi-family home segment. To the end of August, multi-family starts, which consist of semi-detached units, rows, and apartment, totalled 4,104 units compared to 2,691 units in 2011. While construction increased in all product types, the boost was primarily from the apartment category where starts increased 31 per cent from the 1,472 units recorded in the same period in 2011. By the end of this year, multi-family starts are forecast to reach 6,400 units.

In 2013, CMHC expects multi-family starts to decrease 17 per cent to 5,300 units. Some multi-family builders will hold back production as the rising units under construction and inventory level inhibit the start of new projects. Rental apartment construction, however, will be the only segment experiencing an increase in 2013. Strong demand from new migrants, combined with a declining vacancy rate and rising rents among rental apartments, will encourage builders to increase production of rental units.

Multi-family inventories in August were at 962 units, up 3.4 per cent from the previous year due to increased inventories of semi-detached homes and row housing units. The complete and unabsorbed units of semi-detached home increased to 202 units in 2012 from 145 units in 2011, while row housing units increased to 170 units from 121 units. Apartments were the only multi-family housing category where inventory decreased on a year-over-year basis. The number of complete and unabsorbed apartments moved down from 664 units in August 2011 to 590 units in 2012. Given the volume of units under construction, we expect the inventory of multi-family homes will trend upward in 2013.

There were 6,430 multi-family units under construction in August, an increase of 16 per cent from the previous year. All multi-family dwelling types are contributing to the rise in construction. Semi-detached and row units under construction were up 47 and 48 per cent, respectively. Apartment units under construction also increased, but only by three per cent as a large number of units were completed in August. As these units reach completion, semi-detached

Figure 4



Source: RAE, CMHC Forecast (f)

home and row housing inventories will increase and inhibit new construction if not quickly absorbed.

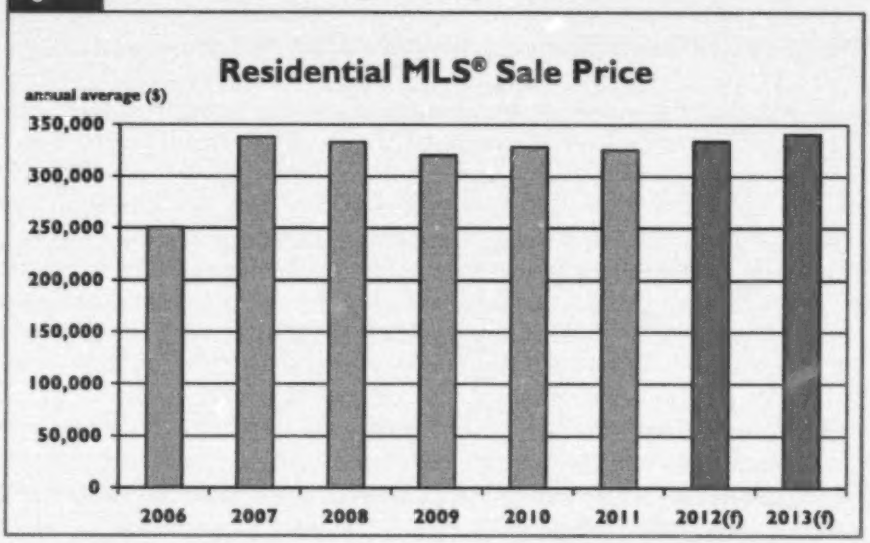
RESALE MARKET

MLS® sales projected to rise through 2013

Demand for existing homes in Edmonton's resale market has picked up and will result in higher sales in 2012. During the first eight months of 2012, MLS® residential sales were at 12,986 units, up almost six per cent from 12,295 units in 2011. While the low unemployment rate in the Edmonton CMA contributed to attracting migrants and providing prospective buyers opportunities to find work, it was the strong growth in full-time employment in 2011 that drove demand for existing homes in 2012. Full-time jobs are a key driver to housing demand as it provides the means to take on homeownership. Persistently low mortgage rates have also supported first-time buyers to move into homeownership. Some renters also decided to become homeowners as the increasing average rent made homeownership more attractive.

Most of the above factors will continue to support the resale market for the remainder of the year. Sales of existing homes are forecast to reach 18,000 in 2012, representing an increase of six per cent from 2011. In 2013, existing home sales will continue to trend upward but at a slower pace. While demand for resale homes will remain elevated, moderating full-time job creation, modestly higher mortgage rates, and lower net migration will result in a slower gain in existing home sales. Uncertainties in the global economy will also hold back some demand. MLS® residential sales

Figure 5



Source: RAE, CMHC Forecast (f)

are expected to increase by two per cent in 2013 to 18,400 units.

The resale market has recently moved from favouring buyers toward balanced market conditions as demand increased relative to supply. During the first eight months of 2012, new listings rose by only 0.3 per cent to 24,101 units, while sales were up almost six per cent during the same period. Prospective buyers not only had fewer choices but also less time to make their purchasing decision as the days-on-market for some segments have moved lower. Overall, the sales-to-active listings ratio rose and moved into balanced territory, supporting positive price growth.

Average resale price to rise through 2013

With market conditions in the resale market strengthening this year, the average resale price in the Edmonton CMA is expected to rise after marginally declining in 2011. During the first eight months of the year, average prices were up three per cent from the same period in 2011. By the end of the year, CMHC forecasts the resale price to average $334,000 for 2012, up from $325,595 in 2011. In 2013, balanced market condition will persist and the average price will continue to grow. An average home in Edmonton will be sold for $341,000 in 2013, representing an increase of two per cent from 2012.

The composition of sales also contributed to the gain in average price, as sales of single-detached homes in higher-price ranges were strong during the first eight months of 2012. Employment growth in many of the higher-paying industries provided many prospective buyers an opportunity to spend more on a home. After eight months, single-detached homes selling for more than $700,000 increased by 41 per cent compared to the same period in 2011. Sales of homes sold between $450,000 and 699,000 also rose by 33 per cent on a year-over-year basis.

Despite increased demand for single-detached homes in the higher price ranges, most homes sold continued to be in the mid-price ranges. Homes

sold between $300,000 and $449,000 accounted for 52 per cent of the total sales during the first eight months of 2012, while sales in the $450,000 to $699,000 range was only 17 per cent. The share of single-detached homes sold above $700,000, represented only three per cent of the total August year-to-date sales.

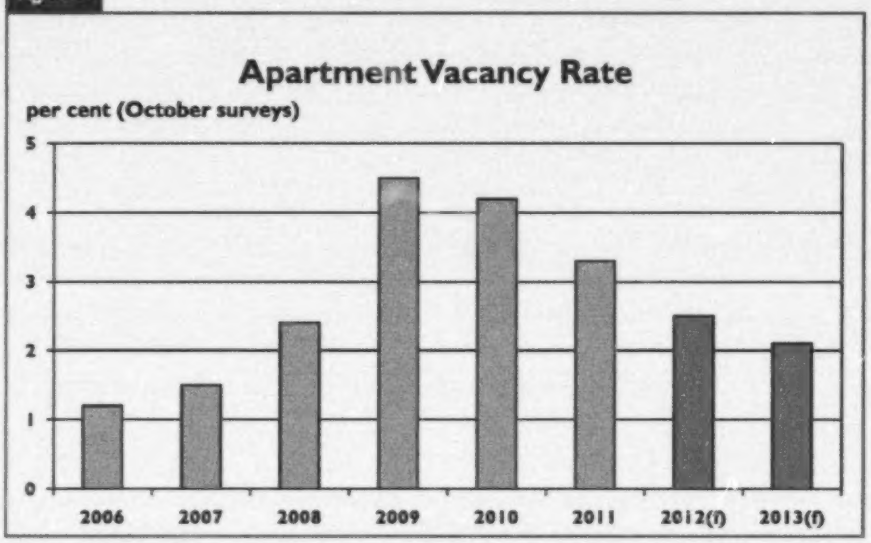
RENTAL MARKET

Lower vacancies lift average rents

The 2012 vacancy rate for rental apartments in the Edmonton CMA is expected to move lower for the third consecutive year. Strong migration to the CMA is the major contributor to the increased demand for rental units, as migrants have a high propensity to rent when they first arrive to the region. With plenty of employment opportunities, people from other provinces and other parts of the world will continue to move to Edmonton. Supported by these factors, CMHC is forecasting a vacancy rate of 2.5 per cent in October 2012, down from 3.3 per cent in 2011.

More rental starts this year will result in a higher level of rental completions in 2013. During the first eight months of 2012, there were 1,266 rental units started, a level that already surpassed total rental starts of 817 units for all of 2011. Completion of apartments has been on a rise for the past few months as well. Looking forward, the strong number of rental apartment starts in 2012 will likely result in a higher level of rental completions and add to supply in 2013.

Figure 6



Source: CMHC, CMHC Forecast (f)

An increase in supply in 2013, however, will not contribute to an increase in the CMA's average vacancy rate. Property owners will continue to see their units absorbed quickly by migrants who come to the region for jobs. CMHC is forecasting the vacancy rate in October 2013 to move down to 2.1 per cent.

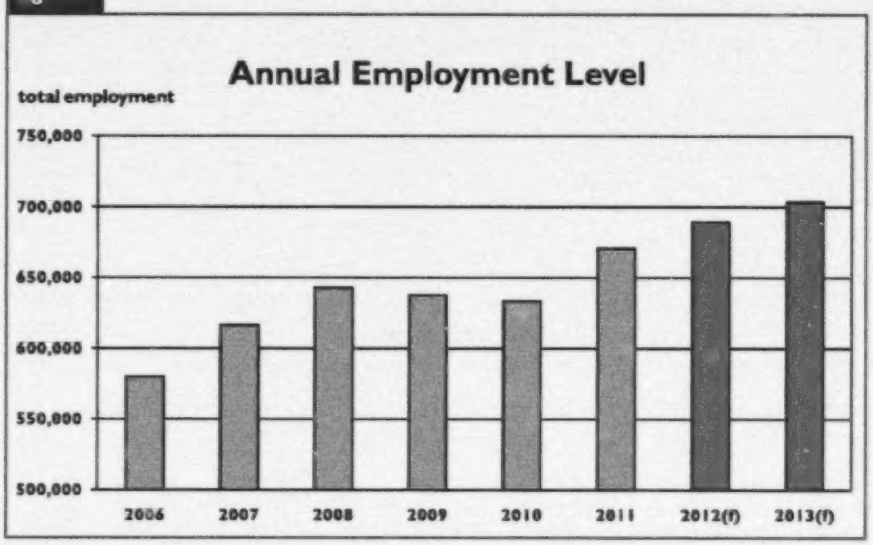
Declining rental vacancies will also result in some spill-over demand to the secondary market such as a rental condominium. For purpose built apartments, the rental vacancy rate across the Edmonton CMA decreased from 4.2 per cent in October 2010 to 3.3 per cent in 2011, while the rental condominium apartment vacancy rate moved down from 5.2 per cent in 2010 to 3.7 per cent in 2011. The spill-over demand from the primary market will further lower the vacancy rate in the rental condominium market. With strong demand, it is expected that there will be more investor owned condominium units for rent.

ECONOMIC OVERVIEW

Employment growth will continue to support housing demand

Investment in the energy sector is resulting in strong job creation in the Edmonton CMA for the second successive year. To the end of August, average employment in Edmonton increased 3.2 per cent, representing the addition of over 20,000 jobs. Important for housing demand, the rate of full-time job creation has outperformed gains in part-time positions. In fact, all jobs created thus far in 2012 have been full-time. By year end, average annual employment is expected to increase by 2.8 per cent in 2012, following the 5.9 per cent gain last year.

Figure 7



Source: Statistics Canada, CMHC Forecast (f)

In 2013, job growth will remain positive but moderate slightly. Investments and job creation will be strong in Edmonton's construction and manufacturing sectors that are supplying infrastructure, equipment and services for the energy sector. CMHC is forecasting employment growth of two per cent in Edmonton in 2013.

With the pace of job creation surpassing that of the labour force, the jobless rate in 2012 has continued to move lower in the Edmonton CMA. Appetite for labour in Edmonton has already contributed to a decline in the August unemployment rate to 4.6 per cent, down from 5.6 per cent recorded a year earlier. By the end of the year, the unemployment rate in the Edmonton CMA is projected to average 4.8 per cent.

In 2013, however, Edmonton's unemployment rate will stabilize as the downward trend eases. While the number of people entering the workforce will put some upward pressure on the jobless rate, strong demand for labour will quickly absorbed the additional number of people looking for work. The unemployment rate in the Edmonton CMA will average 4.7 per cent in 2013.

Average earnings rose five per cent in August from the previous year, reaching $995 per week. The higher demand for labour in an environment where the unemployment rate declined put upward pressure on earnings. Hiring in the manufacturing and construction sector also supported earning increase as these two sectors tend to pay higher than average wages.

People will continue to be drawn to opportunities in Edmonton's labour market. With the unemployment rate averaging well below that of other jurisdictions in Canada, expect interprovincial migration to be elevated this year. Net migration is forecast to increase to 19,000 people in 2012, up from 12,193 in 2011. In 2013, however, net migration is forecast to decrease 15 per cent to 16,200 people. While the labour market in Edmonton is expected to continue outperforming many other regions in Canada, economic conditions will pick-up in other centres and moderate the pace of migration to this CMA.

MORTGAGE RATE OUTLOOK

Mortgage rates to remain low

Although there is significant uncertainty, mortgage rates are not expected to change in 2012. Slight increases are expected in 2013, but rates will remain low by historical standards.

According to CMHC's base case scenario, for 2012, the one-year mortgage rate is forecasted to be within 2.75 per cent to 3.50 per cent. For 2013, the one-year posted mortgage rate is expected to rise and be in the 3.00 per cent to 4.00 per cent range, while the five-year posted mortgage rate is forecasted to be within 5.00 per cent to 5.75 per cent, consistent with higher employment and economic growth prospects in 2013.

Forecast Summary Edmonton CMA Fall 2012	2009	2010	2011	2012f	% chg	2013f	% chg
Resale Market							
MLS® Sales	19,139	16,403	16,963	18,000	6.1	18,400	2.2
MLS® New Listings	30,696	33,131	31,719	31,500	-0.7	31,000	-1.6
MLS® Average Price ($)	320,378	328,803	325,595	334,000	2.6	341,000	2.1
New Home Market							
Starts:							
Single-Detached	3,897	6,062	5,017	5,600	11.6	5,500	-1.8
Multiples	2,420	3,897	4,315	6,400	48.3	5,300	-17.2
Starts - Total	6,317	9,959	9,332	12,000	28.6	10,800	-10.0
Average Price ($):							
Single-Detached	543,243	490,128	509,059	516,000	1.4	525,000	1.7
Median Price ($):							
Single-Detached	460,000	429,900	448,400	458,000	2.1	465,000	1.5
New Housing Price Index (% chg.)	-11.2	-0.8	0.9	1.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	4.5	4.2	3.3	2.5	-	2.1	-
Two-bedroom Average Rent (October) ($)	1,015	1,015	1,034	1,065	-	1,105	-
Economic Overview							
Mortgage Rate (1 year) (%)	4.02	3.49	3.52	3.37	-	3.78	-
Mortgage Rate (5 year) (%)	5.63	5.61	5.37	5.26	-	5.37	-
Annual Employment Level	637,900	633,400	671,000	690,000	2.8	703,800	2.0
Employment Growth (%)	-0.8	-0.7	5.9	2.8	-	2.0	-
Unemployment rate (%)	6.7	6.7	5.4	4.8	-	4.7	-
Net Migration	20,427	9,842	12,193	19,000	55.8	16,200	-14.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of October 17, 2012.

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